

Insight Catastrophe Group, LLC and Subsidiaries

**Consolidated Financial Statements
and Supplementary Information**

Years Ended December 31, 2019 and 2018



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Independent Auditors' Report

Members and Board of Directors
Insight Catastrophe Group, LLC and Subsidiaries
Jersey City, New Jersey

We have audited the accompanying consolidated financial statements of Insight Catastrophe Group, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with GAAP.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The following is presented on pages 17 through 21 for the purpose of additional analysis and is not a required part of the basic consolidated financial statements and is collectively referred to as the "Supplementary Schedules":

- Consolidating Balance Sheets as of December 31, 2019 and 2018
- Consolidating Statements of Operations for the years ended December 31, 2019 and 2018
- Consolidating Statement of Changes in Members' Equity for the years ended December 31, 2019 and 2018.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling the Supplementary Information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
April 3, 2020

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,116,584	\$ 5,927,195
Accounts receivable	1,457,355	3,619,482
Other receivable	-	941,982
Note receivable - current portion	135,150	512,658
Equity securities	519,233	-
Prepaid expenses	1,409,594	1,428,246
Other current assets	335,616	845,691
Due from related parties	(30,448)	283,544
Funds held for others	8,483,303	12,845,418
	<hr/>	<hr/>
Total current assets	24,426,387	26,404,216
Software development costs, net	6,008,675	4,203,227
Property and equipment, net	2,979,742	1,895,335
Notes receivable - related parties	166,646	381,083
Notes receivable - noncurrent portion	630,451	-
Other noncurrent assets	941,322	712,195
	<hr/>	<hr/>
Total assets	<u>\$ 35,153,223</u>	<u>\$ 33,596,056</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,971,920	\$ 2,161,419
Commissions and fees payable	6,651,608	4,719,874
Other accrued expenses	1,887,341	866,800
Accrued bonus compensation	1,204,127	2,704,199
Accrued incentive compensation	639,979	981,722
Funds held for others	8,483,303	12,845,418
Deferred revenue	-	1,958
	<hr/>	<hr/>
Total current liabilities	20,838,278	24,281,390
Accrued bonus compensation - noncurrent portion	-	1,328,989
Distribution payable - unvested	832,941	645,661
	<hr/>	<hr/>
Total liabilities	21,671,219	26,256,040
Members' equity:		
Members' equity	13,583,505	8,210,048
Noncontrolling interest	(101,501)	(870,032)
	<hr/>	<hr/>
Total members' equity	13,482,004	7,340,016
	<hr/>	<hr/>
Total liabilities and members' equity	<u>\$ 35,153,223</u>	<u>\$ 33,596,056</u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues, net	<u>\$ 136,054,967</u>	<u>\$ 108,660,884</u>
Operating expenses:		
Commissions	58,204,634	41,190,140
Personnel	29,284,439	26,394,401
Other expenses	8,643,976	7,598,609
Professional fees	5,550,191	4,331,827
Policy processing	312,058	265,289
Program printing	1,740,309	1,382,592
Software licensing	560,948	586,387
Occupancy	1,089,067	810,525
Software development	3,027,441	2,717,347
Depreciation and amortization	448,914	485,099
Total operating expenses	<u>108,861,977</u>	<u>85,762,216</u>
Operating income before stock based compensation	27,192,990	22,898,668
Stock based compensation	<u>165,383</u>	<u>22,487</u>
Operating income	27,027,607	22,876,181
Non-operating income (expenses):		
Interest income	164,442	71,412
Other non-operating income (expense)	86,900	(291,174)
Guaranteed payment expense	<u>-</u>	<u>(752,481)</u>
Net non-operating income (expenses)	<u>251,342</u>	<u>(972,243)</u>
Net income	27,278,949	21,903,938
Less net income attributable to noncontrolling interest	<u>4,957,092</u>	<u>4,113,872</u>
Net income attributable to controlling interest	<u><u>\$ 22,321,857</u></u>	<u><u>\$ 17,790,066</u></u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2019 and 2018

	Controlling Interest	Noncontrolling Interest	Total
Balance, December 31, 2017	\$ 5,305,560	\$ (1,220,328)	\$ 4,085,232
Member distributions	(14,885,578)	(3,786,063)	(18,671,641)
Stock based compensation	-	22,487	22,487
Net income	17,790,066	4,113,872	21,903,938
Balance, December 31, 2018	8,210,048	(870,032)	7,340,016
Member distributions	(17,051,636)	(4,250,708)	(21,302,344)
Stock based compensation	103,236	62,147	165,383
Net income	22,321,857	4,957,092	27,278,949
Balance, December 31, 2019	<u>\$ 13,583,505</u>	<u>\$ (101,501)</u>	<u>\$ 13,482,004</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 27,278,949	\$ 21,903,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,323,374	1,593,110
Stock based compensation	165,383	22,487
Loss on disposal of property and equipment	26,219	-
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	2,162,127	2,450,120
Other receivable	941,982	(941,982)
Prepaid expenses	18,652	(1,428,246)
Other current assets	510,076	26,787
Due to (from) related parties	313,992	73,720
Other noncurrent assets	(229,127)	(49,134)
Increase (decrease) in operating liabilities:		
Accounts payable	(189,499)	804,361
Other accrued expenses	1,020,541	(521,718)
Commissions and fees payable	1,931,734	1,142,840
Accrued bonus compensation	(2,829,061)	1,565,729
Accrued incentive compensation	(341,743)	744,761
Deferred revenue	(1,958)	75
Funds held for others	(4,362,115)	4,798,989
Net cash provided by operating activities	<u>28,739,525</u>	<u>32,185,837</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,559,539)	(1,161,502)
Additions to software development costs	(3,679,909)	(2,971,344)
Issuance of notes receivable	(793,671)	(1,313,940)
Principal payments on notes received	235,932	1,390,109
Net cash used in investing activities	<u>(5,797,187)</u>	<u>(4,056,677)</u>
Cash flows from financing activities:		
Distributions payable	-	(1,903,545)
Distributions payable - unvested	187,280	330,787
Distributions to members	(21,302,344)	(18,671,641)
Net cash used in financing activities	<u>(21,115,064)</u>	<u>(20,244,399)</u>
Net increase in cash and funds held for others	<u>1,827,274</u>	<u>7,884,761</u>
Cash, cash equivalents and funds held for others, beginning of year	<u>18,772,613</u>	<u>10,887,852</u>
Cash, cash equivalents and funds held for others, end of year	<u><u>\$ 20,599,887</u></u>	<u><u>\$ 18,772,613</u></u>
Supplemental disclosure of non-cash flow information:		
Conversion of notes receivable	\$ 519,233	\$ -
Increase in equity securities	(519,233)	-

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Insight Catastrophe Group, LLC and Subsidiaries (the "Company") specializes in providing insurance portfolio management and risk advisory services. Serving the insurance and financial services industries, the Company is dedicated to assisting its clients in achieving superior risk-adjusted returns.

Insight Catastrophe Group, LLC ("ICG") is the parent company and majority member of SageSure Insurance Managers LLC ("SIM") and sole member of Insight Catastrophe Managers, LLC ("ICM"). ICG conducts no significant business and has no employees.

SIM, a limited liability company domiciled in the State of Florida, is the largest independent residential property Managing General Underwriter in the United States. SIM develops competitively-priced property insurance products for its highly-rated insurance carrier partners ("Carrier Partner") and distributes these products through a growing network of insurance agents and brokers.

ICM provides property risk management consulting and proprietary risk management software. Their advanced financial analytics, catastrophe modeling tools and revolutionary policy management system provide clients with a comprehensive solution that includes real-time policy evaluation, financial metrics and capital management capabilities.

SIM operates under an Administrative & Technology Cost Sharing Agreement (the "Agreement") with ICM. Under the terms of the Agreement, ICM will provide SIM with certain administrative and technology services and shared costs will be allocated in accordance with the Agreement.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ICG, SIM and ICM (collectively referred to as the Company). The consolidated entities represent companies under common control. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are held at internationally recognized financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. In the normal course of business, the Company at times has deposits that exceed insured amounts. As of December 31, 2019, the Company held cash, including funds held for others, in excess of the FDIC limit by \$20,185,771. The Company has a concentration of credit risk since the deposits are in excess of the federally insured limit. The Company mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

Investments - Equity securities held by the Company that are not marketable are recorded at cost. Income is recognized when dividends are received, and gains and losses are recognized when securities are sold. The carrying amount of equity securities is evaluated when conditions indicate potential impairment exists.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Accounts Receivable – Carrier Partner accounts receivable balances are stated at the amount management expects to collect from outstanding balances for commissions earned. Management reviews receivables aged over 90 days for collectability and establishes a reserve if non-collection is considered probable. At December 31, 2019 and 2018, the Company did not record an allowance for doubtful accounts. The Company, in general, does not require collateral when extending credit to policyholders of its Carrier Partners.

Funds Held for Others - The Company maintains bank accounts for the benefit of its Carrier Partners pending final settlement on behalf of policyholders. Policyholders of Carrier Partners make deposits into the accounts. The Company returns premiums to the policyholders on behalf of the Carrier Partners with their approval. Provisional commission payments to the Company and premium funds in excess of agreed-upon minimum balances due to each Carrier Partner are transferred weekly from these accounts. Monthly settlements of commissions due, less provisional payments, are made monthly from the Carrier Partner accounts. The cash in these accounts is reported as funds held for others on the accompanying consolidated balance sheets and is offset by a corresponding liability.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements that extend the lives of property and equipment are capitalized, while maintenance and repairs are charged directly to expense as incurred. Upon the disposition of property and equipment, the cost of the asset and the associated accumulated depreciation and amortization is eliminated from the related accounts. Any resulting gain or loss is reported in the consolidated statements of operations.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	7-10 years
Office equipment and leasehold improvements	5-10 years
Computer equipment and office software	3-5 years

Software Development Costs - The Company serves customers as an application service provider utilizing internally developed software along with related software services, software licensing, and software hosting services. Costs incurred related to the development of software to be licensed prior to technological feasibility are expensed. Under GAAP, once the Company concludes that technological feasibility is obtained, all subsequent development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Amortization is computed on an individual product basis over the estimated economic life of the product, generally three years, using the straight-line method. Costs incurred to maintain the software are expensed as incurred.

The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost for possible impairment. For the years ended December 31, 2019 and 2018, it was determined that impairment was not necessary.

Deferred Revenue - Amounts billed and received prior to the recognition of the related revenue are reflected as deferred revenue in the accompanying consolidated balance sheets.

Compensated Absences – Employees of the Company are entitled to paid vacation, paid sick leave, and personal days off. Compensated absences earned during the year are eligible for payout upon termination, while any compensated absences carried over from prior years are not eligible for payout. Therefore no compensated absences are eligible for future payout at December 31 of any year. Additionally, all employees of the Company are compensated on a salary basis. Management considers that, for these reasons, an accrual for compensated absences is not considered necessary.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Stock-Based Compensation - The Company accounts for stock based payments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, *Stock-Based Compensation*. Units are provided under the Company's equity-based compensation plans. Shares awarded are measured at the fair value on the grant date. Compensation expense is recognized over the vesting period of the units, with a corresponding increase in common units.

Revenue Recognition - The Company earns commission revenue for the placement of its Carrier Partners' insurance policies through its platform and its network of insurance agents and brokers. Commissions shared with producing agents and brokers and also with the Company's sales and marketing staff are recorded in commission and employee compensation and benefits expense, respectively, in the consolidated statements of operations. Commissions are earned at a point in time upon the effective date of bound insurance coverage, as no performance obligation exists after coverage is bound. Commission revenue is recorded net of allowances for estimated policy cancellations, which are determined based on an evaluation of historical and current cancellation data.

The Company also earns fee revenue, comprised of policy, installment and inspection fees. Policy fees are charged upon issuance of the related policies and are nonrefundable except in certain states where proration is required. There are no ongoing obligations associated with the fees for the corresponding policy period. Therefore, policy fee revenue is recognized at the time a policy becomes effective. Installment fees are charged to insureds who opt to pay their insurance premiums over time and are earned when billed due to no additional performance obligation to the insureds or to the Carrier Partner. Inspections fees are earned at policy issuance as these fees are for services performed prior to binding coverage under the insurance policy.

Profit-sharing revenue earned by the Company is based primarily on underwriting profitability of its policies placed with its Carrier Partners. This revenue represents a form of variable consideration, which includes additional compensation over base commissions received from Carrier Partners. Loss experience on the business placed with its Carrier Partners is a key component of the Company's profit-sharing agreements. The uncertainty of catastrophic losses and future loss development renders the recognition of profit-sharing revenue subject to significant reversal. Consequently, the Company does not recognize profit-sharing revenue until the earlier of written confirmation from its Carrier Partners or upon receiving cash payment.

The Company also earns consulting and service fee revenue under certain agreements by providing consulting services, software as a service, web service solutions, and related professional services other than securing insurance coverage. Consulting and service fee revenues are recognized depending on when the services within the contract are satisfied and when control of those services has been transferred to the customer. In situations where multiple performance obligations exist within a fee contract, the use of estimates is required to allocate the transaction price on a relative stand-alone selling price basis to each separate performance obligation.

Due to the relatively short time period between the information gathering phase and binding insurance coverage, the Company has determined that costs to fulfill contracts are not significant. Therefore, costs to fulfill a contract are expensed as incurred.

The Company has also established a reserve for cancellations, which is included in commissions and fees payable on the accompanying consolidated balance sheets. This liability includes estimates of future trends in cancellation frequency and other factors which could vary from actual results. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the cancellation reserve is adequate.

Income Taxes - The Company is a limited liability company, the income from which is taxable to its individual members. Accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal or state income taxes.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying amount of notes receivable approximates fair value as the interest rate on the note is variable, approximating current market rates.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used. Estimates and assumptions are periodically reviewed, and the effects of any material revisions are reflected in the consolidated statements of operations in the period that they are deemed necessary.

Application of Recent and Future Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("Topic 606"), which provides guidance for revenue recognition. Topic 606 affects any entity that either enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Effective as of January 1, 2019, the Company adopted ASU 2014-09, and all related amendments that established ASC Topic 606 using the modified retrospective approach.

As part of the adoption of the ASU, the Company elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The adoption resulted in no changes to beginning retained earnings as of January 1, 2019.

Cash Flow Statement

In August 2016, the FASB issued ASU 2016-15, *Statements of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("Topic 230"). In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows: Restricted Cash* ("Topic 230"). ASU 2016-15 and ASU 2016-18 were issued to address diversity in practice of how certain cash receipts and cash payments are currently presented and classified in the statement of cash flows. ASU 2016-15 primarily addresses the classification and presentation of certain items as well as application of the predominance principle, while ASU 2016-18 primarily addresses the treatment and disclosure of restricted cash. This standard is effective for annual periods beginning after December 15, 2018. The Company adopted this update on January 1, 2019, with the impact presented on the consolidated statements of cash flows.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, intended to improve financial reporting about leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by the lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The amendments are effective for the Company for annual reporting periods beginning after December 15, 2020. The Company is currently assessing the impact that the recently issued accounting standard will have on its consolidated financial statements.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The update broadens the information that an entity must consider in developing its expected credit loss estimates, and is meant to better reflect an entity's current estimate of all expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The update is effective for annual periods beginning after December 15, 2022. The Company is current assessing the impact that the recently issued accounting standard will have on its consolidated financial statements.

Subsequent Events

The Company evaluated the recognition and disclosure of subsequent events for its consolidated financial statements through April 3, 2020, the date the financial statements were available to be issued. Subsequent to the year ended December 31, 2019, the World Health Organization declared that the recent coronavirus disease 2019 ("COVID-19") outbreak was a global health emergency. On March 11, 2020, the World Health Organization raised the COVID-19 outbreak to "pandemic" status. Due to the recentness of these events, the Company is unable to estimate the potential impact, if any, to the Company's financial position at this time.

2. Investments

Equity Securities

On July 31, 2018, the Company invested \$500,000 in an unsecured convertible note receivable (the "Note") with an unrelated foreign entity. The Note pays interest at 6% per annum, which is capitalized and is payable or converted on the conversion date or the redemption date. The Note will be either converted or redeemed at the sole discretion of the majority noteholder. During December 2018, the majority noteholder chose to convert, whereby the Company's Note would follow in conversion. The Company executed an amended Note with a conversion date of March 31, 2019, subject to required re-domestication to the United States by the issuer. The Note converted in March 2019, resulting in the Company being granted 141,084 Series A-2 preferred shares, totaling \$519,233 in value. Dividend income received during the year ended December 31, 2019 totaled \$0.

3. Property and Equipment

Major classifications of property and equipment are summarized as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 810,525	\$ 733,748
Leasehold improvements	1,382,317	835,000
Software – office	339,486	279,210
Furniture and fixtures	1,447,216	883,772
Office equipment	<u>6,024</u>	<u>29,723</u>
	3,985,568	2,761,453
Less accumulated depreciation	<u>1,005,568</u>	<u>866,118</u>
Property and equipment, net, end of year	<u>\$ 2,979,742</u>	<u>\$ 1,895,335</u>

Depreciation expense was \$448,913 and \$485,099 for the years ended December 31, 2019 and 2018, respectively.

In 2019 and 2018, the Company disposed of property and equipment which resulted in losses of \$26,219 and \$246,143, which is included in Other expenses on the accompanying consolidated statement of operations.

4. Software Development Costs

Capitalized software development costs included in the accompanying consolidated balance sheets as of December 31:

	<u>2019</u>	<u>2018</u>
Software development costs	\$ 13,941,302	\$ 10,261,393
Less accumulated amortization	<u>7,932,627</u>	<u>6,058,166</u>
Net capitalized software development costs, end of year	<u>\$ 6,008,675</u>	<u>\$ 4,203,227</u>

Amortization expense was \$1,874,461 and \$1,108,011 for the years ended December 31, 2019 and 2018. The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost to determine if a write-down is necessary.

5. Notes Receivable

On February 1, 2019, the Company executed a \$500,000 promissory note with a third party, bearing interest at a 8% per annum and maturing on January 31, 2024. On November 15, 2019, the Company executed a second promissory note with same third party totaling \$787,097 in principal representing satisfaction of the \$437,097 outstanding principal balance on the first promissory note plus an additional \$350,000 in principal and bearing interest at 8% annum. The second promissory note matures on November 30, 2024. At December 31, 2019, the principal balance of the note was \$765,601 and the Company earned total interest income of \$38,764 for the year then ended on the two promissory notes.

6. Related Party Transactions

Four promissory notes in the principal amount totaling \$699,999 have been executed by SIM. Three of the promissory notes were between SIM and related parties. The additional promissory note was between SIM and a member of SIM. Each note matures the earlier of 1) January 1, 2025, 2) the day immediately prior to the date that the Company files an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with the Company terminates or 4) the sale of all or substantially all of the assets or membership units of the Company. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal and interest balances of the notes outstanding as of December 31, 2019 and 2018 totaled \$28,216 and \$242,652, respectively, and are included in notes receivable - related parties on the accompanying consolidated balance sheet.

Three promissory notes in the principal amount totaling \$250,001 have been executed by ICM. All three promissory notes were between ICM and related parties and mature on the earlier of 1) January 1, 2025, July 12, 2026, and October 12, 2027, respectively, 2) the day immediately prior to the date that the Company files an initial registration statement for an initial public offering, 3) the date of which the makers of the notes employment with the Company terminates, or 4) the sale of all or substantially all of the assets or membership units of the Company. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. The principal balances of the notes outstanding at December 31, 2019 and 2018 was \$138,431 and are included in notes receivable – related parties on the accompanying consolidated balance sheet.

At December 31, 2019 and 2018, the Company held receivables from related parties of \$6,032 and \$6,949 included in other noncurrent assets on the accompanying consolidated balance sheets. These amounts have no set repayment terms or interest. At December 31, 2019 and 2018, the Company held receivables due from employees of \$3,402 and \$1,463, which are included in other current assets on the accompanying consolidated balance sheets. At December 31, 2019 and 2018, the Company also held pre-paid deferred compensation funding of \$429,856 and \$844,228, which are included in other assets on the accompanying consolidated balance sheets.

At December 31, 2019 and 2018, the Company had distributions payable to members totaling \$0 and \$5,074, which are netted against due from related parties on the accompanying consolidated balance sheet.

7. Long-Term Incentive Compensation

The Company has long-term incentive compensation arrangements with certain key employees under its Long-Term Incentive Plan ("LTIP"), effective from 2014 through 2017, and its Equity Long-Term Incentive Program (the "Program"), initiated in 2019. Executive management has determined and approved eligible employees to participate in the LTIP and the Program. Awards are made at executive management's discretion based on analysis of market compensation, actual performance and long-term retention goals for specific employees, enabling the Company to attract and retain employees who will contribute to the Company's long term success, provide incentives aligning interests of the Company's shareholders and key employees, and promote the Company's continued success.

2014-2017 LTIP

The LTIP Pool is based on Total Value created for the Company for the four-year performance period from 2014-2017. LTIP value is based on Operating Income and Profit Sharing. Unit grants are based on 16 complete quarters and units are awarded to eligible employees based on 1/16 per eligible complete quarters of employment times their allocated units for their paygrade. The payout schedule begins after the four-year performance period results are approved. Payout begins with 60% on March 15, 2018, with 20% paid on each January 2, 2019 and 2020.

The value of units vested at December 31, 2019 and 2018, was \$257,191 and \$981,722 respectively, and is included in accrued incentive compensation in the accompanying consolidated balance sheets.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

The Company recognized incentive compensation expense related to an adjustment of the LTIP accrual of \$98,071 and \$20,046 for the years ended December 31, 2019 and 2018, respectively. Incentive compensation expense is included in personnel expenses in the accompanying consolidated statements of operations.

Equity Long-Term Incentive Program

Pursuant to the adoption of the Equity Long-Term Incentive Program (the "Program"), the Company awarded key employees (the "Participants") the following long-term incentives:

Deferred Compensation

On June 30, 2019, the Company initiated deferred compensation awards totaling \$2,015,000 in stated dollar amounts to the Participants representing their interest in the enterprise value of the Company as of December 31, 2018. This deferred compensation vests 25% annually on March 15, 2020 through 2023, subject to employment on the vesting date. Compensation expense related to Program Deferred Compensation totaled \$382,788 for the year ended December 31, 2019.

Profits Interest

On June 30, 2019, the Company awarded the Participants 274.8 Series B membership units under the Program. Series B membership units have no voting rights and do not share in the Company's profits or losses and do not receive distributions. The grant-date value of the Series B membership units was \$585,000, with 25% vesting annually on March 15, beginning in 2020 through 2023, subject to employment on the vesting date. Compensation expense related to these awards was \$103,236 for the year ended December 31, 2019.

8. Members' Equity

On January 1, 2015, SIM's membership executed an operating agreement which authorized 20,000 zero-par-value membership units for issuance. 10,000 of these units were authorized for issuance as Common Units. 8,090 Common Units are held by ICG and represent an 80.9% equity position in SIM. 1,910 shares are held by a noncontrolling interest ("Member") and represents a 19.1% equity position in SIM. All Common Units have equal rights and profits (losses) are allocated pro-rata based on ownership percentage. Membership units are generally non-transferrable except under very specific circumstances.

The Company used a fair value method that encompassed an income approach to determine the fair value of SIM and a discounted cash flows approach for evaluating ongoing operations. Compensation expense related to the vesting of Common Units is based on a \$891 fair market value of each Common Unit as of December 31, 2014.

The Member is also an employee of SIM, and the Common Units are subject to the following vesting requirements; 1,143 vested upon issuance with the remaining 767 Common Units vesting ratably over a period of 114 months, unless certain thresholds are met, which may accelerate vesting in that period. Compensation expense of \$62,147 and \$22,487 was recognized for the years ended December 31, 2019 and 2018, respectively, and is included in the accompanying consolidated statements of changes in members' equity. The Company expects to recognize stock based compensation expense of \$279,576 associated with vesting of the unvested Common Units through the year ended December 31, 2024.

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

9. Revenue

The following table disaggregates revenue by major source for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Commission revenue ⁽¹⁾	\$ 116,477,211	\$ 83,814,328
Fee revenue ⁽²⁾	11,778,094	7,581,726
Profit-sharing revenue ⁽³⁾	5,159,536	14,582,066
Consulting and service fee revenue ⁽⁴⁾	<u>2,640,126</u>	<u>2,682,764</u>
Total revenues	<u>\$ 136,054,967</u>	<u>\$ 108,660,884</u>

(1) Commission revenue represents commissions earned for the placement of its Carrier Partners' insurance policies through its platform and its network.

(2) Fee revenues are comprised of policy, installment and inspection fees.

(3) Profit-sharing revenue, which is variable consideration, is based primarily on underwriting profitability of its policies placed with its Carrier Partners.

(4) Consulting revenue is earned under certain agreements by providing consulting services, software as a service, web service solutions, and related professional services other than securing insurance coverage.

10. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick leave, and personal days off. Compensated absences earned during the year are eligible for payout upon termination, while any compensated absences carried over from prior years are not eligible for payout. Therefore, no compensated absences are eligible for future payout at December 31 of any year. Additionally, all employees of the Company are compensated on a salary basis. Management considers that, for these reasons, an accrual for compensated absences is not considered necessary.

11. Defined Contribution Plan

The Company sponsors a profit-sharing and 401(k) deferred compensation employee benefit plan (the Plan). Employees are eligible to participate in the Plan after attaining the age of 21 and 3 months of service with the Company. The Company contributes amounts to the Plan based upon a Safe Harbor Matching policy and also may decide each plan year whether to make a discretionary, non-elective employer contribution on behalf of eligible, active participants. Expense recognized as matching contributions was \$650,517 and \$481,028 in 2019 and 2018, respectively. There were no discretionary contributions made to the Plan during the years ended December 31, 2019 and 2018.

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

12. Leases

The Company leases various office facilities in Florida, Texas, Connecticut, Ohio, and New Jersey that will expire at various times through 2027. Total rent expense and common charges under the operating leases was \$991,289 and \$729,798 for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, the future minimum lease payments required under non-cancellable operating leases are presented as follows:

	<u>Operating Leases</u>
2020	\$ 1,344,368
2021	1,373,489
2022	1,378,051
2023	1,393,784
2024	1,408,872
Thereafter	<u>2,028,300</u>
Total minimum lease payments	<u>\$ 8,926,863</u>

13. Information About Financial Instruments with Off Balance Sheet Risk, and Significant Customers

Accounts receivable of approximately 99% and 98% were due from two customers at December 31, 2019 and 2018, respectively. These customers accounted for approximately 99% and 98% of revenues derived from program management services for the years ended December 31, 2019 and 2018, respectively.

Supplementary Information

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2019

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 581,601	\$ 11,206,760	\$ 328,223	\$ -	\$ 12,116,584
Equity securities	-	519,233	-	-	519,233
Accounts receivable	-	1,456,956	399	-	1,457,355
Note receivable - current portion	-	135,150	-	-	135,150
Prepaid expenses	-	531,068	878,526	-	1,409,594
Other current assets	-	338,495	(2,879)	-	335,616
Due from related parties	15,139	17,966	-	(63,553)	(30,448)
Funds held for others	-	8,483,303	-	-	8,483,303
Total current assets	596,740	22,688,931	1,204,269	(63,553)	24,426,387
Software development costs, net	-	-	6,008,675	-	6,008,675
Property and equipment, net	-	1,214,221	1,765,521	-	2,979,742
Investment in subsidiaries	11,619,717	-	-	(11,619,717)	-
Notes receivable - related parties	-	28,216	138,430	-	166,646
Notes receivable - noncurrent portion	-	630,451	-	-	630,451
Other noncurrent assets	-	206,412	734,910	-	941,322
Total assets	\$ 12,216,457	\$ 24,768,231	\$ 9,851,805	\$ (11,683,270)	\$ 35,153,223
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 76,901	\$ 1,178,616	\$ 716,403	\$ -	\$ 1,971,920
Commissions and fees payable	-	6,651,608	-	-	6,651,608
Other accrued expenses	-	306,727	1,580,614	-	1,887,341
Accrued bonus compensation	-	1,204,127	-	-	1,204,127
Accrued incentive compensation	-	64,892	575,087	-	639,979
Funds held for others	-	8,483,303	-	-	8,483,303
Due to related parties	-	-	63,553	(63,553)	-
Total current liabilities	76,901	17,889,273	2,935,657	(63,553)	20,838,278
Distribution payable - unvested	-	832,941	-	-	832,941
Total liabilities	\$ 76,901	\$ 18,722,214	\$ 2,935,657	\$ (63,553)	\$ 21,671,219
Members' equity:					
Members' equity	12,139,556	6,147,518	6,916,148	(11,619,717)	13,583,505
Noncontrolling interest	-	(101,501)	-	-	(101,501)
Total members' equity	12,139,556	6,046,017	6,916,148	(11,619,717)	13,482,004
Total liabilities and members' equity	\$ 12,216,457	\$ 24,768,231	\$ 9,851,805	\$ (11,683,270)	\$ 35,153,223

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2018

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 48,083	\$ 5,296,292	\$ 582,820	\$ -	\$ 5,927,195
Accounts receivable	-	3,587,983	31,499	-	3,619,482
Other receivable	-	941,982	-	-	941,982
Note receivable - current portion	-	512,658	-	-	512,658
Prepaid expenses	-	747,820	680,426	-	1,428,246
Other current assets	-	541,353	304,338	-	845,691
Due from related parties	9	283,463	402,768	(402,696)	283,544
Funds held for others	-	12,845,418	-	-	12,845,418
Total current assets	48,092	24,756,969	2,001,851	(402,696)	26,404,216
Software development costs, net	-	-	4,203,227	-	4,203,227
Property and equipment, net	-	314,857	1,580,478	-	1,895,335
Investment in subsidiaries	6,839,356	-	-	(6,839,356)	-
Notes receivable - related parties	-	242,652	138,431	-	381,083
Other noncurrent assets	-	146,526	565,669	-	712,195
Total assets	<u>\$ 6,887,448</u>	<u>\$ 25,461,004</u>	<u>\$ 8,489,656</u>	<u>\$ (7,242,052)</u>	<u>\$ 33,596,056</u>
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 2,423	\$ 1,141,656	\$ 1,017,340	\$ -	\$ 2,161,419
Commissions and fees payable	-	4,719,874	-	-	4,719,874
Other accrued expenses	-	298,235	568,565	-	866,800
Accrued bonus compensation	-	1,374,863	1,329,336	-	2,704,199
Accrued incentive compensation	-	299,927	681,795	-	981,722
Funds held for others	-	12,845,418	-	-	12,845,418
Deferred revenue	-	-	1,958	-	1,958
Due to related parties	5,075	397,621	-	(402,696)	-
Total current liabilities	7,498	21,077,594	3,598,994	(402,696)	24,281,390
Accrued bonus compensation, non-current portion	-	1,328,989	-	-	1,328,989
Distribution payable - unvested	-	645,661	-	-	645,661
Total liabilities	<u>\$ 7,498</u>	<u>\$ 23,052,244</u>	<u>\$ 3,598,994</u>	<u>\$ (402,696)</u>	<u>\$ 26,256,040</u>
Members' equity:					
Members' equity	6,875,975	3,282,767	4,890,661	(6,835,380)	8,214,023
Noncontrolling interest	-	(874,007)	-	-	(874,007)
Total members' equity	6,879,950	2,408,760	4,890,661	(6,839,356)	7,340,016
Total liabilities and members' equity	<u>\$ 6,887,448</u>	<u>\$ 25,461,004</u>	<u>\$ 8,489,656</u>	<u>\$ (7,242,052)</u>	<u>\$ 33,596,056</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2019

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues, net	\$ -	\$ 133,414,841	\$ 2,640,126	\$ -	\$ 136,054,967
Operating expenses:					
Commissions	-	58,204,634	-	-	58,204,634
Personnel	-	28,514,371	770,068	-	29,284,439
Other expenses	2,364	8,464,742	176,870	-	8,643,976
Professional fees	42,609	5,472,348	35,234	-	5,550,191
Policy processing	-	312,058	-	-	312,058
Program printing	-	1,740,309	-	-	1,740,309
Software licensing	-	560,034	914	-	560,948
Occupancy	-	1,046,911	42,156	-	1,089,067
Software development	-	2,871,077	156,364	-	3,027,441
Depreciation and amortization	-	432,241	16,673	-	448,914
Total operating expenses	44,973	107,618,725	1,198,279	-	108,861,977
Operating income (loss) before stock based compensation	(44,973)	25,796,116	1,441,847	-	27,192,990
Stock based compensation	-	62,147	103,236	-	165,383
Operating income (loss)	(44,973)	25,733,969	1,338,611	-	27,027,607
Non-operating income (expenses):					
Interest income	2,424	157,243	4,775	-	164,442
Other non-operating income	86,900	-	-	-	86,900
Equity in earnings of subsidiaries	22,277,506	-	-	(22,277,506)	-
Net non-operating income (expenses)	22,366,830	157,243	4,775	(22,277,506)	251,342
Net income	22,321,857	25,891,212	1,343,386	(22,277,506)	27,278,949
Less net income attributable to noncontrolling interest	-	4,957,092	-	-	4,957,092
Net income attributable to controlling interest	\$ 22,321,857	\$ 20,934,120	\$ 1,343,386	\$ (22,277,506)	\$ 22,321,857

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2018

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues, net	\$ -	\$ 105,978,119	\$ 2,682,765	\$ -	\$ 108,660,884
Operating expenses:					
Commissions	-	41,190,140	-	-	41,190,140
Personnel	-	25,667,521	726,880	-	26,394,401
Other expenses	4,929	7,386,704	206,976	-	7,598,609
Professional fees	39,958	4,254,138	37,731	-	4,331,827
Policy processing	-	265,289	-	-	265,289
Program printing	-	1,382,592	-	-	1,382,592
Software licensing	-	582,379	4,008	-	586,387
Occupancy	-	769,232	41,293	-	810,525
Software development	-	2,559,977	157,370	-	2,717,347
Depreciation and amortization	-	460,393	24,706	-	485,099
Total operating expenses	44,887	84,518,365	1,198,965	-	85,762,216
Operating income (loss) before stock based compensation	(44,887)	21,459,754	1,483,800	-	22,898,668
Stock based compensation	-	22,487	-	-	22,487
Operating income (loss)	(44,887)	21,437,267	1,483,800	-	22,876,181
Non-operating income (expenses):					
Interest income	-	78,843	(7,431)	-	71,412
Other non-operating expense	(291,174)	-	-	-	(291,174)
Guaranteed payment expense	(752,481)	-	-	-	(752,481)
Equity in earnings of subsidiaries	18,878,608	-	-	(18,878,608)	-
Net non-operating income (expenses)	17,834,953	78,843	(7,431)	(18,878,608)	(972,243)
Net income	17,790,066	21,516,110	1,476,369	(18,878,608)	21,903,938
Less net income attributable to noncontrolling interest	-	4,113,872	-	-	4,113,872
Net income attributable to controlling interest	\$ 17,790,066	\$ 17,402,238	\$ 1,476,369	\$ (18,878,608)	\$ 17,790,066

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Changes in Members' Equity
Years Ended December 31, 2019 and 2018

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC		Insight Catastrophe Managers, LLC	Eliminations	Consolidated
		Controlling Interest	Noncontrolling Interest			
Balance, December 31, 2017	\$ 3,971,487	\$ 1,815,850	\$ (1,220,328)	\$ 2,940,327	\$ (3,422,104)	\$ 4,085,232
Transfers in (out)	316,035	-	-	(316,035)	-	-
Member distributions	(15,201,613)	(15,939,296)	(3,786,063)	790,000	15,465,331	(18,671,641)
Stock based compensation	-	-	22,487	-	-	22,487
Net income	<u>17,790,066</u>	<u>17,402,238</u>	<u>4,113,872</u>	<u>1,476,369</u>	<u>(18,878,607)</u>	<u>21,903,938</u>
Balance, December 31, 2018	6,875,975	3,278,792	(870,032)	4,890,661	(6,835,380)	7,340,016
Transfers in (out)	(6,640)	-	-	578,865	(572,225)	-
Member distributions	(17,051,636)	(18,065,394)	(4,250,708)	-	18,065,394	(21,302,344)
Stock based compensation	-	-	62,147	103,236	-	165,383
Net income	<u>22,321,857</u>	<u>20,934,120</u>	<u>4,957,092</u>	<u>1,343,386</u>	<u>(22,277,506)</u>	<u>27,278,949</u>
Balance, December 31, 2019	<u>\$ 12,139,556</u>	<u>\$ 6,147,518</u>	<u>\$ (101,501)</u>	<u>\$ 6,916,148</u>	<u>\$ (11,619,717)</u>	<u>\$ 13,482,004</u>

See independent auditors' report on supplementary information.